

Message Text

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FM AMEMBASSY TANANARIVE

TO SECSTATE WASHDC 8296

C O N F I D E N T I A L SECTION 1 OF 2 TANANARIVE 1144

E.O. 11652: GDS

TAGS: EINV, PINT, MA, US, FR

SUBJ: RATSIRAKA PRESENTS OIL COMPANIES TO MALAGASY PEOPLE AS
NATIONAL DAY GIFT - AN ANALYSIS

REF: (A) TANANARIVE 1043, (B) TANANARIVE 1054, (C) TANANARIVE 1092

1. SUMMARY: MADAGASCAR'S NATIONAL DAY JUNE 26-27 WAS MARKED BY (A) A PARADE OF MILITARY SPORTING NEWLY ARRIVED CHINESE AK-47 RIFLES AND (B) NATIONALIZATION OF OIL COMPANIES. OIL COMPANIES' SHIPMENTS ORIGINALLY SCHEDULED FOR MADAGASCAR HAVE BEEN DIVERTED, BUT ALGERIAN OIL AND IRAQI OIL WILL FILL THE GAP. ROMANIAN TECHNICIANS HAVE TAKEN OVER MANAGEMENT OF TAMATAVE REFINERY. OIL COMPANIES' NATIONALIZATION IS FIRST DRASTIC GDRM MOVE SINCE AUGUST 1975 TO SOCIALIZE FURTHER THE ECONOMY, AND REST OF MAJOR PRIVATELY-OWNED INVESTMENTS ARE CERTAIN TO FALL OVER COURSE OF TIME. OUTLOOK FOR COMPENSATION OF OIL COMPANIES FOR THEIR ASSETS IS NOT GOOD, ESPECIALLY SINCE GDRM LEVIED HUGE FINES ON EACH COMPANY, WHICH IN EACH CASE IS SEVERAL TIMES VALUE OF ASSETS. WE BELIEVE OIL COMPANIES HAVE WRITTEN THEIR ASSETS OFF THE BOOKS AND, DESPITE THEIR ORIGINAL INTENTION TO COOPERATE WITH GDRM INsofar AS POSSIBLE, IT IS UNLIKELY THAT THERE WILL BE ANY REAL COMPENSATION. END SUMMARY.

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2. MADAGASCAR'S NATIONAL DAY(S) CELEBRATION, JUNE 26-27, WAS

MARKED BY TWO EVENTS. ONE WAS THE MILITARY PARADE AT TANANARIVE MUNICIPAL STADIUM, NOTEWORTHY BECAUSE (A) ALMOST ONE-QUARTER (1,300) OF MALAGASY ARMED FORCES PASSED IN REVIEW, (B) ABOUT THREE-QUARTERS OF TROOPS ON PARADE WERE SPORTING NEW AK-47 RIFLES WITH CHINESE MARKINGS, AND (C) CROWDS ENTHUSIASTICALLY APPLAUDED HALF-HOUR OF CARD STUNTS, AN INNOVATION FOR MADAGASCAR FOR WHICH THREE CHINESE EXPERTS HAD BEEN IMPORTED. THE OTHER EVENT OCCURRED THE PRECEDING DAY, JUNE 25, WHEN PRESIDENT RATSIRAKA, IN AN ADDRESS TO THE NATION, ANNOUNCED THAT (A) THE VARIOUS OIL COMPANIES HAD BEEN NATIONALIZED EFFECTIVE IMMEDIATELY, AND (B) GDRM HAD TAKEN OVER MAJORITY CONTROL OF COUNTRY'S SECOND-LARGEST TEXTILE PRODUCER, COTONA, AND FRENCH CONGLOMERATE SOMACODIS.

3. IN ADDITION TO INFORMATION CONTAINED REFTELS, WE LEARNED ON JULY 8 FROM OUTGOING ESSO MANAGER GUATRET THAT RECENT GDRM DECISIONS HAVE NOT BEEN CONDUCIVE TO FURTHER COOPERATION BETWEEN OIL COMPANIES AND GDRM. ESSO SHIPMENT OF AVIATION GAS AND LUBRICANTS, DUE TO ARRIVE AROUND JULY 5, HAD BEEN DIVERTED TO REUNION WHEN ESSO DECIDED TO ASK FOR PAYMENT PRIOR TO TANKER'S DEPARTURE FROM REUNION FOR MADAGASCAR. (AS PRECAUTION, ESSO HAD PLANNED TO TRANSFER THE SHIPMENT IN REUNION FROM ITS OWN TANKER TO A MALAGASY COASTAL VESSEL.) ALTHOUGH MINISTER OF ECONOMY RARIVOSON HAD EARLIER PROMISED TO COVER SHIPMENT WITH LETTER OF CREDIT, HE TOLD ESSO THAT NEW MALAGASY STATE-OWNED OIL COMPANY "SOLITANY MALAGASY," OF WHICH HE IS CHAIRMAN OF MANAGEMENT COMMITTEE, HAD DECIDED IT WOULD NOT PAY FOR SHIPMENT UNTIL ARRIVAL IN TAMATAVE. IN ADDITION, RARIVOSON TOLD GAUTRET THAT \$600-700,000 IN OUTSTANDING BILLS FOR PAST DELIVERIES FROM ESSO WOULD BE SUBJECT OF NEGOTIATIONS RE. COMPENSATION FOR OIL COMPANIES' NATIONALIZATION. ESSO THEREFORE DECIDED TO MAKE OTHER USE OF THE AVGAS AND LUBRICANTS WHICH HAD LANDED IN REUNION, HAVING BECOME INCREASINGLY MORE PESSIMISTIC OVER PROSPECTS FOR SUCCESSFULLY RESOLVING ANY OUTSTANDING FINANCIAL MATTERS WITH GDRM.

4. OIL COMPANY NATIONALIZATIONS VIRTUALLY WIPED OUT US INVESTMENTS IN MADAGASCAR. ESSO'S AND CALTEX' COMBINED BOOK VALUE ASSETS OF ABOUT \$7.8 MILLION REPRESENTED 95 PERCENT OF US INVESTMENTS, THE REST BEING MINOR SINGER AND HILTON INTERESTS.

5. THESE NATIONALIZATIONS REPRESENT THE FIRST DRASTIC GDRM MOVE
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TOWARD SOCIALIZING THE ECONOMY SINCE IT NATIONALIZED THE MARSEILLAISE, LARGEST FRENCH TRADING COMPANY HERE, ALMOST A YEAR AGO (AUGUST). MOST BUSINESSMEN HERE OF ALL NATIONALITIES FORESAW THE HANDWRITING ON THE WALL; THEY FELT THAT IT WAS ALL A MATTER OF TIME, GIVEN RATSIRAKA'S PROGRAM PER HIS "LITTLE RED BOOK." IN SOME WAYS IT WAS SURPRISING THAT HE DID NOT ACT EARLIER. ALTHOUGH SEVERAL MEMBERS OF THE CABINET, SUCH AS ECONOMY MINISTER RARIVOSON AND FINANCE MINISTER RAZAKABOANA, ARE BASICALLY WESTERN

ORIENTED AND WERE ATTEMPTING TO PURSUE A SLOWER, MORE MODERATE APPROACH TOWARD RESTRUCTURING THE ECONOMY, THEY ARE IN THE END JUST FRONT MEN FOR RATSIRAKA AND HIS RADICALLY-ORIENTED COTERIE. RARIVOSON MAY BE CHAIRMAN OF SOLITANY MALAGASY'S MANAGEMENT COMMITTEE, BUT IT APPEARS THAT HE TAKES ORDERS FROM THE VICE CHAIRMAN, RABEARIVELO, WHOSE OFFICIAL AND PRIMARY FUNCTION IS ADVISOR TO THE PRESIDENT. JUST BEFORE THE TAKEOVERS, A CABINET SOURCE DESCRIBED TO US HOW DIFFICULT IT IS FOR CABINET MEMBERS TO ARGUE WITH THE POLITICALLY-ORIENTED MEMBERS OF THE SUPREME REVOLUTIONARY COUNCIL WHO RANK AHEAD OF THE CABINET AND, ACCORDING TO THE SOURCE, CANNOT COMPREHEND THE POLITICAL OR ECONOMIC IMPLICATIONS OF GDRM ACTIONS.

6. AT FIRST IT APPEARED THAT THE OIL COMPANY NATIONALIZATIONS WERE A LAST-MINUTE DECISION BY RATSIRAKA AS HE SEARCHED FOR A DRAMATIC ANNOUNCEMENT TO MAKE TO THE MALAGASY PEOPLE ON THE OCCASION OF NATIONAL DAY. NOW IT SEEMS THAT THERE WAS CONSIDERABLE PRIOR PLANNING, IN VIEW OF (A) ARRIVAL OF ROMANIAN REFINERY TECHNICIANS (WHO REPORTEDLY HAVE ALREADY MOVED IN TO MANAGE TAMATIVE REFINERY) AND (B) ALGERIAN AND IRAQI OIL SHIPMENTS (ALGERIAN SHIPMENT HAS APPARENTLY ALREADY BEEN OFFLOADED WHILE IRAQI OIL IS ENROUTE).

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7. THERE ARE STILL A NUMBER OF LARGE FOREIGN-OWNED (MOSTLY FRENCH) ENTERPRISES AND WE ASSUME THAT THEIR DAY WILL COME.

(WE NOTE THAT COTONA, WHICH EMPLOYS OVER 2,000 WORKERS, WAS A FAMILY-OWNED BUSINESS OF LOCAL PAKISTANIS OF FRENCH NATIONALITY.) FRENCH AMBASSADOR ROGER TOLD ME RECENTLY THAT RATSIRAKA PLANS TO TAKE OVER AT LEAST 51 PERCENT OF ALL IMPORTANT FOREIGN FIRMS. ROGER HAS BEEN TRAVELLING AROUND THE COUNTRY ADVISING FRENCH BUSINESSMEN, PARTICULARLY THE SMALL BUSINESSMEN (WHOM HE THINKS WILL BE SQUEEZED OUT INDIRECTLY), THAT THEY ARE VULNERABLE AND SHOULD THINK ABOUT WRAPPING IT UP WHILE THE GOING IS GOOD. HE TOLD ME THAT HE EXPECTS THAT RATSIRAKA WILL GO AFTER THE AGRICULTURAL SECTOR NEXT YEAR (MOST OF THE VAST SISAL PLANTATIONS IN THE SOUTH ARE FRENCH OWNED). SINCE MANY OF THE FRENCH ARE SECOND- OR THIRD-GENERATION RESIDENTS OF MADAGASCAR, ROGER HAS MET WITH CONSIDERABLE OBSTINACY AND RESENTMENT FROM FRENCH BUSINESSMEN WHO SOMEHOW BELIEVE THAT, CONSIDERING THE MAGNITUDE OF FRENCH AID TO MADAGASCAR, THE FRENCH GOVERNMENT CAN STEM THIS TIDE.

8. THE OUTLOOK FOR SATISFACTORY NEGOTIATIONS OVER COMPENSATION IS NOT GOOD. ESSO AND CALTEX REPS HERE DO NOT EXPECT MUCH, IF ANY, REAL COMPENSATION AND ARE OBVIOUSLY SKITTISH ABOUT SERVING AS HOSTAGES. THE ENORMITY OF THE RECENT FINES (IN COMPARISON WITH THE APPARENTLY TRIVIAL NATURE OF THE OFFENSE) IS ONE NEGATIVE

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FACTOR, ESPECIALLY SINCE ESSO (NOT CALTEX, HOWEVER) BELIEVES FIRMLY THAT IT IS NOT EVEN GUILTY OF INFRACTIONS OF LOCAL REGULATIONS REGARDING REPATRIATION OF FOREIGN CURRENCIES. SECOND, ESSO FINDS IT APPALLING THAT THE GDRM PLANS TO INCLUDE PAYMENTS OF UNPAID BILLS FOR PAST DELIVERIES IN UPCOMING NEGOTIATIONS. THIRD, SHIPMENTS OF ALGERIAN AND IRAQI OIL AND ARRIVAL OF ROMANIAN REFINERY TECHNICIANS EVIDENTLY PLANNED PRIOR TO JUNE 25 INDICATE TO OIL COMPANIES THAT GDRM DOES NOT PLAN TO RELY ON WESTERN-SUPPLIED OIL; THEREFORE, GDRM HAS NO REASON TO BE NICE TO OIL COMPANIES. FOURTH, GDRM AND OIL COMPANIES HAD BARELY BEGUN NEGOTIATIONS ON TAMATAVE REFINERY (COMPANIES NEVER EVEN HAD OPPORTUNITY TO RESPOND TO INITIAL GDRM DEMANDS) BEFORE RATSIRAKA ANNOUNCED NATIONALIZATION ON JUNE 25.

9. WE BELIEVE PARENT OIL COMPANIES ARE ALREADY WRITING THEIR ASSETS HERE OFF THE BOOKS. GAUTRET OF ESSO, WHO JUST RETURNED FROM WEEK IN LONDON TO DISCUSS SITUATION AT COMPANY HQ, INDICATED THAT SENIOR COMPANY OFFICIALS ARE ALMOST TOTALLY NEGATIVE TOWARD MAKING FURTHER CONCESSIONS TO GDRM; HENCE THEY TOOK HARD LINE IN DEMANDING PRIOR PAYMENT FOR AVGAS SHIPMENT WHICH HAD BEEN DIVERTED TO REUNION. IN ADDITION, OIL COMPANIES PERCEIVE THAT GDRM DOES NOT NEED NOR WANT THEIR CONTINUED INVOLVEMENT HERE.

10. GDRM HAS REQUESTED COMPANIES TO INFORM IT BY JULY 25 OF THE VALUE OF THEIR ASSETS. NEGOTIATIONS ARE EXPECTED TO COMMENCE IN AUGUST. AT MOMENT, RARIVOSON (WHO WILL UNDOUBTEDLY LEAD GDRM

SIDE IN NEGOTIATIONS) IS ON TRIP TO ALGERIA, IRAQ, AND POSSIBLY OTHER COUNTRIES, SO HE WILL NOT BE IN POSITION TO SET UP NEGOTIATIONS UNTIL LATER IN JULY. AS FORMER SHELL MANAGING DIRECTOR AND CLOSE FRIEND OF MOST OIL COMPANY REPS HERE, RARIVOSON WOULD PERSONALLY PREFER TO COOPERATE WITH OIL COMPANIES AND EFFECT AMICABLE AND REASONABLE SETTLEMENT. HOWEVER, HIS HANDS ARE UNDOUBTEDLY TIED. WHEN PROVIDING ORIGINAL RATIONALE FOR NATIONALIZATIONS ON ECONOMIC TERMS (REF B, PARA 3), HE SURPRISINGLY ADMITTED THAT GDRM ACTION WAS BASICALLY POLITICAL.

11. COINCIDENTALLY, US STEEL REP FRANK FENTON ARRIVED IN TOWN JUST BEFORE NATIONALIZATIONS TO LOOK INTO POSSIBLE INVESTMENT IN EXPLOITATION OF ILMENITE. AS HE DEPARTED JULY 1, HE TOLD ME WHAT DID NOT NEED TO BE STATED EXPLICITLY: FOREIGN INVESTMENT IN MADAGASCAR IS A HIGH-RISK VENTURE. MOREOVER, CONFIDENTIAL

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HE ADDED, PRIOR AGREEMENTS OR CONTRACTS MAY NOT BE HONORED WHENEVER THEY PRESENT OBSTACLES TO GDRM OBJECTIVES.

12. WILL THE AUGUST NEGOTIATIONS ON COMPENSATION SIMPLY BE A SHAM? TIME WILL TELL, BUT WE COULD NOT WITH CERTAINTY PREDICT OTHERWISE.SHEINBAUM

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